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SUBJECT: AMBASSADOR TELLS FINANCE MINISTER DEBT RELIEF
REQUIRES BETTER PERFORMANCE

REF: (A) ABIDJAN 806 (B) ABIDJAN 723 (C) ABIDJAN 758

Classified By: POL/ECON Chief for reasons 1.4 (b) and (d).

¶1. (C) Summary. In a November 6 meeting, Ambassador told Economy and Finance Minister Charles Diby that Cote d'Ivoire must show stronger fiscal performance to reach the Highly Indebted Poor Country (HIPC) decision point. Diby explained extra-budgetary spending on public works projects in Yamoussoukro as a one-off event, but admitted that the GOCI has no mechanism for ensuring that resources are linked to stated national priorities. Diby said the GOCI had already taken steps to avoid a repeat of the Yamoussoukro expenditure. He outlined measures taken by the GOCI to increase budgetary discipline and transparency, insisted that other members of government are now cognizant of the importance of HIPC debt relief, and argued that such relief would not be possible if the GOCI does not reach the decision point by March 31, 2009. End Summary.

¶2. (C) After delivering a demarche on the Monterrey Consensus on financing for development (ref A), Ambassador raised HIPC with Finance Minister Diby, stressing that the GOCI--like all other governments--should show six months of strong fiscal performance under an IMF program to reach the HIPC decision point. Ambassador assured Diby that the USG understands Cote d'Ivoire's need for debt relief and wants to see Cote d'Ivoire succeed, but also expects Cote d'Ivoire to meet the established criteria and noted that to date the GOCI's performance under its second Emergency Post-Conflict Assistance program has been poor.

¶3. (C) Diby launched into a defense of his personal actions with regard to the unbudgeted Yamoussoukro public-works expenditures (refs B, C). He acknowledged that the contract for the Yamoussoukro projects (signed in 2004) included a clause calling for possible payment in petroleum but said this clause had never before been exercised. It was only during the IMF mission in late September and early October of this year that he became aware of the fact that the contractor had received a payment in petroleum. The Finance Minister said he fully disclosed information on the contract to the IMF mission as soon as he became aware of the payment. He also defended expenditures for the renovation of the Hotel Ivoire. President Gbagbo expects Abidjan to host the 2010 African Development Bank conference, and the Hotel Ivoire is the only facility that would be able to accommodate a gathering of heads of state. That expenditure, plus expenditures to improve the Port of Abidjan, apparently led the GOCI to use petroleum for payment for the Yamoussoukro projects. Diby said Gbagbo has already signed a decree to eliminate payment in petroleum in any future transactions. All oil revenue will come directly to the government and be accounted for in a transparent manner, he claimed.

¶4. (C) Ambassador acknowledged Diby's personal commitment to complying with the IMF program but said the extra-budgetary expenditures suggest a lack of commitment on the part of the government overall to control spending and to ensure that expenditures support the government's stated priorities. She asked Diby what mechanisms the government has in place to match resources to priorities; he admitted that there is none. Diby argued, however, that due to his repeated interventions at cabinet meetings, etc. ministers throughout the government have come to understand that it is critical

for Cote d'Ivoire to obtain debt relief under the HIPC program, and have therefore accepted that the Finance Ministry has to take certain measures, such as paying the country's arrears to the World Bank rather than paying off internal debts. Ambassador reminded Diby that an underlying principle of HIPC is that countries will channel funds that would have been used to pay debts to support social sector development, hence the importance of mechanisms to ensure resources match priorities.

15. (C) Diby acknowledged the GOCI's past shortcomings but said the government is doing the best it can under difficult circumstances. He stressed actions the current government has taken despite its difficulties, including publishing budget figures every quarter (for the first time in the country's history), paying arrears to the World Bank, and moving forward on Extractive Industries Transparency Initiative membership. He said execution of the budget has been suspended from October 15 through the end of this year to help make up for unbudgeted expenditures. The only spending that continues is for salaries and some social sector activities. He said the IMF would be able to see improvement in October and November data, and cocoa revenues would soon be rising, as this year's harvest progresses. Noting that the GOCI was now quite late in clearing its African Development Bank (AfDB) arrears, Ambassador asked Diby when the GOCI would clear the arrears. Diby said the GOCI had already paid USD 50 million of the arrears and would pay the remainder by November 15, in part from cocoa revenues.

16. (C) Diby repeatedly stressed the difficulties he has had persuading other cabinet members and GOCI leaders that painful steps must be taken and said he is the only person in the GOCI with "macroeconomic vision." However, he noted, Ivorian leaders now realize the importance of qualifying for HIPC debt relief, and all of the "potential presidents" want debt relief. Diby pleaded for understanding, noting that if the six-month clock begins ticking only now, the GOCI will not be able to achieve debt relief at all, since as of March 31, 2009, the IMF will discontinue the Poverty Reduction and Growth Facility (PRGF), i.e., no country in the world will be able to obtain a PRGF. (Note: PM Soro made a similar comment to Ambassador a few months ago. End note.) Ambassador noted that the USG knew Cote d'Ivoire's debt ratios were falling and that Cote d'Ivoire might lose its HIPC status. However, she and econoff said they did not believe the IMF was discontinuing PRGF programs. Diby reiterated his belief that if Cote d'Ivoire does not have a PRGF in place and reach the decision point by March 31, it will forever lose its opportunity to obtain debt relief under the HIPC program.

17. (C) Comment: Econoff confirmed with Treasury after the meeting that PRGF programs are not ending. Given Diby's apparent misunderstanding about this, the GOCI may have unrealistic expectations about qualifying for debt relief. Diby clearly understood the need for immediate improvement in fiscal performance, and he made a persuasive case that the government's overall performance has consistently been better when it was trying to comply with an IMF program than when there was no program. His message was clearly, "Give us the benefit of the doubt," indicating that the Ivorians are deeply worried about losing what they see as their last chance to qualify for HIPC debt relief.

18. (SBU) Post notes that the communique issued November 10 by the Permanent Consultation Framework (CPC) in Ouagadougou called on the international community to help Cote d'Ivoire be eligible for a PRGF and the HIPC decision point by December 31, 2008. This is unusual in a communique from this set of political leaders and, in our view, underscores Ivorian anxiety about obtaining debt relief. End Comment.